

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into as of November 11, 2002, by and among the Governor of the State of California, acting on behalf of the agencies, departments, subdivisions, boards, and commissions of the executive branch of the State of California, including without limitation the California Department of Water Resources; the California Electricity Oversight Board; the California Public Utilities Commission; the People of the State of California, by and through the Attorney General; the City and County of San Francisco and the City of Oakland; the County of Santa Clara; the County of Contra Costa; Valley Center Municipal Water District; Padre Dam Municipal Water District; Ramona Municipal Water District; Helix Water District; Vista Irrigation District; Yuima Municipal Water District; Fallbrook Public Utility District and Borrego Water District; The Metropolitan Transit Development Board; San Diego Trolley, Inc.; San Diego Transit Corporation; Sweetwater Authority; California Lieutenant Governor Cruz Bustamante; California Assemblywoman Barbara Mathews; classes consisting of all persons or entities in California who indirectly purchased Electric Power for purposes other than resale or distribution since January 1, 1998, represented by Pamela R. Gordon, Ruth Hendricks, Mary L. Davis and Oscar's Photo Lab; the Attorneys General of Washington and Oregon as chief law enforcement officers of their respective states; The Williams Companies, Inc.; and Williams Energy Marketing & Trading Company.

1. **Definitions.**

The following terms with initial capital letters, which are in addition to other terms with initial capital letters defined in the body of this Settlement Agreement or by the context in which they appear in this Settlement Agreement, have the following meanings when used in this Settlement Agreement:

1.1 "AB1X" means Assembly Bill 1 of the 2001-02 First Extraordinary Session, which amended the California Water Code by adding Division 27, authorizing the CDWR to, among other things, enter into contracts with energy suppliers.

1.2 "AES" means any one or more of AES Corporation; AES Southland L.L.C., a Delaware limited liability company, AES Alamitos, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, AES Huntington Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, and AES Redondo Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware.

1.3 "AES Contract" means that certain Capacity Sale and Tolling Agreement (together with all ancillary agreements) dated May 1, 1998, as amended May 15, 1998, by and among AES and Williams.

1.4 “AG” means the Attorney General of California; the People of the State of California, by and through the Attorney General Bill Lockyer.

1.5 “All Releasing Parties” means the California State Releasing Parties, the California Cities, Counties and Political Subdivisions, California Water Districts, Bustamante, the Northwest AGs, the Private Parties, Unnamed California Cities, Counties and Political Subdivisions, Williams, and Williams Companies.

1.6 This paragraph has been intentionally left blank.

1.7 “Bill of Sale” means, collectively, the Bill of Sale, Assignment and Assumption Agreement(s) providing for transfer and assignment of the Property to the AG or his designee(s) required to be delivered by Paragraph 3.2(b) of this Settlement Agreement.

1.8 “Business Day” means any day other than a Saturday, Sunday, or legal holiday in the State of California in which state government is not generally open for business to the public.

1.9 “Bustamante” means Lieutenant Governor Cruz Bustamante and California Assemblywoman Barbara Mathews.

1.10 “CAISO” means the California Independent System Operator Corporation.

1.11 “California Cities and Counties” means the County of Santa Clara, the County of Contra Costa, the City of Oakland and the City and County of San Francisco.

1.12 “California Executive” means the Governor of the State of California, acting on behalf of the agencies, departments, subdivisions, boards, and commissions of the executive branch of the State of California, including, without limitation, CDWR. California Executive shall not include the CPUC or any other body created by the California Constitution.

1.13 “California State Releasing Parties” means California Executive, the CDWR, the CPUC, the CEOB, and the AG.

1.14 “California Water Districts” means Valley Center Municipal Water District, Padre Dam Municipal Water District, Ramona Municipal Water District, Helix Water District, Vista Irrigation District, Yuima Municipal Water District, Fallbrook Public Utility District, Borrego Water District, and Sweetwater Authority.

1.15 “Cal PX” means the California Power Exchange.

1.16 “Cash Consideration” means \$150,000,000, payable to the AG or its designee(s) as follows: (a) \$42,000,000 payable on or before the Closing Date; (b) \$30,000,000 payable on January 1, 2004; (c) \$15,000,000 payable on January 1, 2005; (d) \$15,000,000 payable on January 1, 2007; (e) \$15,000,000 payable on January 1, 2008; (f) \$15,000,000 payable on January 1, 2009; and (g) \$15,000,000 payable on January 1, 2010, subject, however, to the provisions of Paragraphs 4.8(a), 4.8(b), and 4.8(c) hereof. The payments described in clauses (b), (c) and (d) shall be referred to collectively as the “Tranche A Payments,” and the payments described in clauses (e), (f) and (g) shall be referred to collectively as the “Tranche B Payments.”

1.17 “CDWR” means the State of California Department of Water Resources, including without limitation, the California Energy Resources Scheduling Division.

1.18 “Class” means a class or classes consisting of persons or entities in California who indirectly purchased Electric Power for purposes other than resale or distribution since January 1, 1998.

1.19 “CEOB” means the California Electricity Oversight Board.

1.20 “Civil Actions” mean *Gordon v. Reliant Energy, Inc., et al.*, Case No. GIC 758487 (San Diego Super. Ct.), *Hendricks v. Dynegy Power Marketing, Inc., et al.*, Case No. GIC 758565 (San Diego Super. Ct.) and *Pier 23 Restaurant and Oscar’s Photo Lab v. PG&E Energy Trading, et al.*, Case No. 308120 (San Francisco Super. Ct.).

1.21 “Civil Plaintiffs’ Counsel” means the counsel of record for plaintiffs in the Civil Actions.

1.22 “Closing Date” has the meaning given to it in Paragraph 3.1 of this Settlement Agreement.

1.23 “Court” shall have the meaning given to it in Paragraph 3.3 of this Settlement Agreement.

1.24 “CPUC” means the California Public Utilities Commission.

1.25 “Credit Document(s)” means, any of the following documents delivered pursuant to this Settlement Agreement:

- a. Letter(s) of Credit,
- b. Cash held by the AG (or a third party for the benefit of the AG pursuant to the terms of a Deposit Account Control Agreement satisfactory in form and substance to the AG or such other agreement as may be necessary to perfect the AG’s interests therein) as security for all or part of the Cash Consideration,
- c. Credit Default Swap(s) designating the AG (or such other party as may be designated in writing by the AG) as the fixed rate payor meeting the criteria set forth in Schedule 1.25 and Paragraph 4.8(e) of this Settlement Agreement and otherwise satisfactory in form and substance to the AG, or
- d. Documents evidencing such other security for all or part of the Cash Consideration as the AG may agree in writing to accept.

1.26 “Electric Power” means electric energy and related products, including capacity and ancillary services such as regulation, spinning reserve, non-spinning reserve and replacement reserve.

1.27 “Event of Default” has the meaning given to it in Paragraph 4.8(a) of this Settlement Agreement.

1.28 “Fee and Expense Fund” shall have the meaning given to it in Paragraph 4.18 of this Settlement Agreement.

1.29 “FERC” means the Federal Energy Regulatory Commission.

1.30 “Gas” means any natural gas or natural gas-related product or service.

1.31 “Gas Contract” means the NAESB Base Contract to be executed and delivered by Williams to CDWR pursuant to the terms of Paragraph 3.2(c) of this Settlement Agreement.

1.32 “GE Agreement” means that certain Agreement dated October 18, 2001, by and between GE Packaged Power, Inc., as seller, and State Street Bank and Trust Company of Connecticut, National Association, not in its individual capacity but solely as Owner Trustee under that certain trust established under the laws of the State of Connecticut pursuant to a Trust Agreement dated December 5, 2000, between State Street Bank and Trust Company of Connecticut, National Association, and Newcourt Capital U.S.A., Inc., as buyer, relating to the Property.

1.33 “Just and Reasonable” has the meaning ascribed to it in Sections 205 and 206 of the Federal Power Act, 16 U.S.C. §§ 824d and 824e and/or Sections 4 and 5 of the Natural Gas Act 15 U.S.C. §§ 717c and 717d.

1.34 “Letter of Credit” means a standby letter of credit satisfactory to the AG that (a) permits the AG to draw on the Letter of Credit for the full amount stated therein upon any Event of Default, (b) is issued by Bank of America, or another financial institution acceptable to the AG in the AG’s reasonable discretion, and (c) permits the AG to draw on the Letter of Credit for the full amount stated therein (but only to the extent of outstanding obligations secured thereby) if a substitute Letter of Credit issued by Bank of America, or another financial institution acceptable to the AG in the AG’s reasonable discretion, (which shall equal the Cash Consideration obligation outstanding that is secured by such Letter of Credit), in substantially the same form as the Letter of Credit delivered to the AG on the Closing Date, or other Security Documents fully securing the outstanding obligation secured by the Letter of Credit being replaced, is not issued in favor of the AG on or before sixty (60) days prior to the expiration date stated in the Letter of Credit.

1.35 “Litigation Claims” has the meaning given to it in Paragraph 2.19 of this Settlement Agreement.

1.36 “Northwest AGs” means the Attorneys General of Washington and Oregon as chief law enforcement officers of their respective states.

1.37 “Notice Order” has the meaning given to it in Paragraph 3.3 of this Agreement.

1.38 “Original Contracts” means that certain Master Power Purchase and Sale Agreement (together with any exhibits, schedules, confirmation letters and any written

supplements thereto) dated as of February 16, 2001, between Williams and CDWR, and the Amended and Restated Confirmation Letter dated February 21, 2001 (together with any exhibits, schedules, confirmation letters and any written supplements thereto).

1.39 “Owner Trustee” means State Street Bank and Trust Company of Connecticut, National Association, not in its individual capacity but solely as Owner Trustee under that certain trust established under the laws of the State of Connecticut pursuant to a Trust Agreement dated December 5, 2000, between State Street Bank and Trust Company of Connecticut, National Association, and Newcourt Capital U.S.A., Inc.

1.40 “Paragraph” means a numbered paragraph of this Settlement Agreement, unless otherwise noted, and all references to a Paragraph shall include all subparts or subparagraphs of that Paragraph.

1.41 “Parties” means the persons and entities listed in the first Paragraph of this Settlement Agreement, collectively, and their successors and assigns. Each of the Parties may be individually referred to herein as a “Party.”

1.42 “Phase I Execution Date” has the meaning given to it in Paragraph 3.1 of this Settlement Agreement.

1.43 “Phase II Parties” has the meaning given to it in Paragraph 3.1 of this Settlement Agreement.

1.44 “Private Parties” means the named plaintiffs individually and in their respective representative capacities in each of the Civil Actions, the Class, the Metropolitan Transit Development Board, San Diego Trolley, Inc., the Bustamante Civil Action, the Water District Action, and San Diego Transit Corporation.

1.45 “Property” means the six (6) LM 6000 Gas Turbine Generator Sets described in the GE Agreement and all rights of the Owner Trustee under the GE Agreement relating thereto.

1.46 “Rate Agreement” has the meaning given to it in Paragraph 2.8 of this Settlement Agreement.

1.47 “Released Claims” means any and all of the claims set forth and described in Paragraphs 4.1, 4.2, 4.3, 4.4, and 4.5.

1.48 “Renegotiated Contracts” means, collectively, the following agreements to be executed and delivered by Williams and CDWR pursuant to the terms of Paragraph 3.2(a) of this Settlement Agreement, together with any exhibits, schedules, confirmation letters and any written supplements thereto: (a) Product A, B, C Master Agreement (including the Product A, B, C Confirmation); and (b) Product D Master Agreement (including the Product D Confirmation).

1.49 “Settlement Agreement” means this document.

1.50 “Tranche A Payments” mean the payments described in Paragraphs 1.16 (b), (c) and (d) of this Settlement Agreement.

1.51 “Tranche B Payments” means the payments described in Paragraphs 1.16 (e), (f) and (g) of this Settlement Agreement.

1.52 “Unnamed California Cities, Counties and Political Subdivisions” means each of the cities, counties and political subdivisions and districts of the State of California not otherwise identified as parties to this Settlement Agreement to the fullest extent of the authority of the Attorney General of the State of California to release such claims herein.

1.53 “Water District Action” shall have the meaning described in Paragraph 2.4.

1.54 “Wholesale Electricity Antitrust Cases I & II” means the *Gordon* Class Action (described herein in Paragraph 2.2), *Hendricks* Class Action (described herein in Paragraph 2.3), Water District Action (described in Paragraph 2.4), *Cities and Counties’* Action (described herein in Paragraph 2.5), *Pier 23* Class Action (described herein in Paragraph 2.6), and *Bustamante* Complaint (described herein in Paragraph 2.9) that were coordinated under the caption Wholesale Electricity Antitrust Cases I & II, Judicial Council Coordination Proceeding Nos. 4202-00005 and 4202-00006.

1.55 “Williams” means Williams Energy Marketing & Trading Company, a Delaware corporation, formerly known as Williams Energy Services Company, which is an indirectly wholly-owned subsidiary of the Williams Companies and the signatory on the Original Contract and Renegotiated Contracts.

1.56 “Williams Companies” means The Williams Companies, Inc., a Delaware corporation which is the parent of Williams (exclusive of any subsidiary or affiliates as to the releases provided herein). As to the releases with respect to Gas herein, such releases extend only to conduct by Williams imputed to the Williams Companies.

1.57 “Williams Companies Guaranty” means a guaranty from Williams Companies in the form attached hereto as Schedule 1.57.

2. Recitals.

2.1 On August 2, 2000, San Diego Gas & Electric Company filed a Section 206 Complaint (Docket No. EL00-95-000, et al.) at the FERC, which complaint was consolidated with complaints filed by other persons or entities, including the CEOB (Docket No. EL00-104-000), alleging, among other things, that the energy markets in California operated by the Cal PX and CAISO resulted in prices paid for electric energy and energy-related products that were not Just and Reasonable (the “Refund Proceeding”). The Refund Proceeding could result in an obligation on the part of Williams to issue refunds for a portion of sums received for the sale of Electric Power in California.

2.2 On November 27, 2000, Class Representative Pamela Gordon filed a class action complaint against Williams and the Williams Companies in the California State Court in San Diego County (*Gordon v. Reliant Energy, Inc., et al.*, Case No. GIC 758487), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the “*Gordon* Civil

Action”). The *Gordon* Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of to the Class and the general public. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.3 On November 29, 2000, Class Representative Ruth Hendricks filed a class action complaint against Williams and the Williams Companies in the California State Court in San Diego County (*Hendricks v. Dynegy Power Marketing, Inc., et al*, Case No. GIC 758565), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the “*Hendricks* Civil Action”). The *Hendricks* Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits to the Class and the general public. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.4 On January 16, 2001, Sweetwater Authority, Valley Center Municipal Water District and Padre Dam Municipal Water District filed a complaint against Williams and the Williams Companies in the California State Court in San Diego County (*Sweetwater Authority, et al. v. Dynegy, Inc. et al.*, Case No. GIC 760743), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the “Water District Action”). Ramona Municipal Water District; Helix Water District; Vista Irrigation District; Yuima Municipal Water District; Fallbrook Public Utility District; Borrego Water District; Metropolitan Transit Development Board; San Diego Trolley, Inc; San Diego Transit Corporation later joined as plaintiffs in the Water District Complaint. The Water District Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.5 On January 18, 2001, the City and County of San Francisco filed a complaint against Williams and the Williams Companies on behalf of the People of the State of California, in the California State Court in San Francisco County (*People v. Dynegy Power Marketing, Inc., et al.*, Case No. 318189), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the “Cities’ and Counties’ Action”). The City of Oakland, Santa Clara County, and Contra Costa County later joined as plaintiffs in the Cities’ and Counties’ Action. The Cities’ and Counties’ Action seeks (a) monetary damages, (b) injunctive relief, (c) for Williams to pay restitution and disgorgement of profits, and (d) civil penalties. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.6 On January 24, 2001, Class Representative Pier 23 Restaurant filed a class action complaint against Williams and the Williams Companies in the California State Court in San Francisco County (*Pier 23 Restaurant and Oscar’s Photo Lab v. PG&E Energy Trading, et al.*, Case No. 308120), alleging that Williams and the Williams Companies had engaged in unfair competition in the California wholesale Electric Power markets (the “*Pier 23* Civil Action”). Oscar’s Photo Lab and Mary L. Davis later joined as plaintiffs in the *Pier 23* Civil Action, and

Pier 23 Restaurant later withdrew from the litigation. The *Pier 23* Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits to the Class and the general public. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.7 On February 16 and 21, 2001, the CDWR and Williams entered into the Original Contracts.

2.8 On February 21, 2002, pursuant to AB1X, the CDWR and the CPUC executed a duly authorized Rate Agreement (the “Rate Agreement”) providing for the recovery by CDWR of its revenue requirements. The Rate Agreement, among other things, facilitates CDWR’s payment of suppliers of Electric Power such as Williams. The CPUC issued D.02-02-051 on February 21, 2002, finding the Rate Agreement to be in the public interest and adopted it.

2.9 On May 2, 2001, Lieutenant Governor Cruz Bustamante and California Assemblywoman Barbara Mathews filed a complaint against Williams and the Williams Companies and certain of their officers and directors in the California State Court in Los Angeles County (*Bustamante v. Dynegy, Inc., et al.*, Case No. BC 249705), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the “*Bustamante* Civil Action”). The *Bustamante* Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.10 On February 25, 2002, and on February 26, 2002, the CPUC and the CEOB, respectively, filed separate complaints in Docket Nos. EL02-60-000 and EL02-62-000 under Section 206 of the Federal Power Act at the FERC alleging, among other things, that the terms and the rates under the Original Contracts are not Just and Reasonable or consistent with the public interest (the “CPUC Complaint” and the “CEOB Complaint,” respectively). As to Williams, the CPUC and CEOB Complaints seek rescission or, in the alternative, reformation of the Original Contracts. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.11 On March 8, 2002, after the *Gordon* Civil Action, the *Hendricks* Civil Action, the Cities’ and Counties’ Action, the Water District Action, the *Pier 23* Civil Action and the *Bustamante* Action had been coordinated before a single trial judge in Wholesale Electricity Antitrust Cases I & II, the plaintiffs in these actions filed a single Master Complaint.

2.12 On March 11, 2002, the People of the State of California, by and through Attorney General Bill Lockyer, filed a complaint against Williams and the Williams Companies in the California State Court in San Francisco County, Docket CGC-02-405432, alleging that Williams and the Williams Companies had engaged from 1998 to the present in unfair competition in the California ancillary services Electric Power markets (the “AG Unfair Competition Complaint”). The AG unfair Competition Complaint seeks (a) injunctive relief against Williams, (b) restitution, (c) disgorgement of profits, and (d) civil penalties. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.13 On March 20, 2002, the People of the State of California, by and through Attorney General Bill Lockyer, filed a complaint at FERC in Docket No. EL02-71-000 under Sections 205 and 206 of the Federal Power Act alleging, among other things, that public utility sellers which had made sales to CDWR, Cal PX, and the CAISO were in violation of certain reporting and filing requirements (the “AG 206 Complaint”). The AG 206 Complaint, if successful, could result in refund obligations on the part of Williams. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.14 Beginning in late 2000 and continuing through 2002, the People of the State of California, by and through Attorney General Bill Lockyer, served various sets of subpoenas and interrogatories (the “AG subpoenas”) on Williams pursuant to its investigation *In the Matter of the Investigation of Possible Unlawful, Unfair or Anti-Competitive Behavior Affecting Electricity Prices in California* (as further described in Section 2.15, the “AG Investigation”).

2.15 The AG Investigation includes an inquiry into facts relating to Williams’ and Williams Companies’ participation in the California Gas and Electric Power markets from 1998 to the present. The AG Investigation includes the following: any alleged conspiracy between Williams or Williams Companies and other market participants in the Electric Power or Gas markets; the AES Contract; the acquisition and holding of the generation facilities which are the subject of the AES Contract; the exercise of market power and restraint of trade issues relating to the AES Contract and the relationship between AES and Williams and the Williams Companies; the exercise of market power by Williams in the Electric Power or Gas markets; the alleged misconduct concerning outages of AES generation facilities including without limitation outages in April and May 2000; the alleged physical or economic withholding of Electric Power or Gas; the alleged manipulation of supply or prices of Electric Power or Gas; improper or unlawful trading activities relating to Electric Power or Gas; and alleged “cornering” of the Gas market. To date, the AG subpoenas and Investigation have resulted in production by Williams of hundreds of thousands of documents. If the case were not closed the continuing administrative burden and cost to Williams would be much greater. Williams and Williams Companies deny wrongdoing in connection with any of the matters under investigation by the AG.

2.16 On April 9, 2002, the People of the State of California, by and through Attorney General Bill Lockyer, filed a complaint against Williams in the California State Court in San Francisco County, Docket CGC-02-406459, alleging that Williams engaged in unjust and illegal overcharges and price gouging during the California energy crisis (“the AG Profiteering Complaint.”). If successful, the AG Profiteering Complaint could result in civil penalties against Williams. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.17 On April 11, 2002, as part of the AG Investigation, the People of the State of California, by and through Attorney General Bill Lockyer, provided Williams with a draft complaint it intended to file in the United States District Court for the Northern District of California against Williams, the Williams Companies, and AES for allegedly illegal acquisitions and/or holdings and/or control of assets or rights related to such assets, under section 7 of the Clayton Act, 15 U.S.C. § 18, and California Business and Professions Code section 17200, seeking an injunction and other equitable and ancillary relief, divestiture, damages and restitution

(“Clayton Act Complaint”). The Clayton Act Complaint alleged wrongful conduct, including without limitation withholding capacity, decreasing competition and/or raising prices, relating to the acquisition and continued holding of the generation facilities governed by the AES Contract from 1998 to the present (the “AG Clayton Act Investigation”). Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in the Clayton Act Complaint.

2.18 Beginning in late 2000 and continuing through 2002, the Attorneys General of Washington and Oregon have conducted an investigation into facts relating to Williams’ and Williams Companies’ participation in the Oregon and Washington electricity and gas markets from 1998 to the present (the “Northwest AGs Investigations”). The Northwest AGs worked cooperatively with the AG in sharing documents and information related to Williams and other companies. The Northwest AGs have asserted that Williams may be subject to civil liability, including civil penalties and/or restitution, as a result of potential illegal activity. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in the Northwest AG’s Investigations.

2.19 The Refund Proceeding, CPUC Complaint, CEOB Complaint, AG Unfair Competition Complaint, AG 206 Complaint, AG subpoenas, AG Investigation, AG Profiteering Complaint, Cities’ and Counties’ Action, Water District Action, Bustamante Action, Northwest AGs Investigations, Civil Actions, Clayton Act Complaint, and AG Clayton Act Investigation (collectively, the “Litigation Claims”) have resulted in significant legal and other expenses and present risks and uncertainties for all Parties, including, without limitation, the risk of one or more unfavorable judgments in the Litigations Claims.

2.20 Recognizing the mutual benefits of buying peace by reaching a settlement related to the Electric Power and Gas Markets, representatives of Williams, Williams Companies, and the California State Releasing Parties initiated discussions in the winter of 2001-02 to determine whether a resolution was achievable. Subsequently, the parties to the Litigation Claims joined in the settlement discussions.

2.21 After extensive negotiations, the Parties reached the terms of this Settlement Agreement, which provides that in exchange for the releases described in this Settlement Agreement, Williams and/or Williams Companies will, among other things, enter into the Renegotiated Contracts and Gas Contract, pay the Cash Consideration, transfer six combustion turbines to the AG or his designee(s), and cooperate with the AG, the Northwest AGs and the Private Parties, California Cities and Counties, and California Water Districts as provided herein.

2.22 The Parties desire to resolve certain matters and to avoid any future claims relating to them, including issues relating to the effectiveness, enforceability, validity or justness and reasonableness of the Renegotiated Contracts and the Gas Contract, by way of compromise rather than by litigation. The Parties have agreed to resolve such matters and to ensure the ongoing effectiveness and validity of the Renegotiated Contracts and the Gas Contract on the terms and conditions set forth in this Settlement Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed between and among the Parties as follows:

3. Closing.

3.1 Execution of the transactions contemplated by this Settlement Agreement by CDWR, Williams, Williams Companies, the AG, the CPUC and the CEOB ("Phase I Execution") shall take place at such place on such date and in such manner (e.g., in person, by facsimile or by overnight mail) as such parties (the "Phase I Parties") may mutually agree (the "Phase I Execution Date"), but in no event shall the Phase I Execution Date be more than four (4) days following satisfaction of the conditions precedent set forth below in Paragraph 3.6(a) unless otherwise agreed to in writing by the Phase I Parties. Following the Phase I Execution, the consummation of the transactions contemplated by this Settlement Agreement shall be deemed to have occurred on December 31, 2002 (the "Closing Date") provided the conditions set forth in Paragraph 3.6(b) have been satisfied or waived. This Settlement Agreement shall also be executed by the California Cities and Counties, the California Water Districts, the Northwest AGs, and the Private Parties (collectively, the "Phase II Parties") on or before the Closing Date; provided however, that any of the California Cities, Counties and Political Subdivisions may execute this Settlement Agreement after the Closing Date and such Party shall thereafter be bound by the terms and conditions herein as of the date of said execution. Notwithstanding any other provision contained in this Settlement Agreement, the failure of any Party, other than a Phase I Party, to execute this Settlement Agreement on or before the Closing Date shall not invalidate this Settlement Agreement or nullify any provision hereof except that, as between such Party and any other Party hereto, this Settlement Agreement and any provision hereof shall be invalid and of no force or effect; provided, however, that if any of the Private Parties fail to execute the Agreement and the Class is not certified and the settlement is not finally approved, then the Agreement shall terminate as to the Private Parties at Williams exclusive option.

3.2 Phase I Execution Date, Closing:

a. The following actions shall take place on or prior to the Phase I Execution Date:

(i) Renegotiated Contracts. CDWR and Williams shall execute and deliver an original copy of the Renegotiated Contracts, the form of which shall be the same or substantially similar to the documents attached hereto and made a part hereof as Schedule 3.2(a)(i), to each other and to the CPUC, CEOB, and the AG.

(ii) Williams Companies Guaranty. The Williams Companies shall execute and deliver to the AG the Williams Companies Guaranty.

(iii) Gas Contract. CDWR and Williams shall execute and deliver an original copy of the Gas Contract, the form of which shall be the same or substantially similar to the document attached hereto and made a part hereof as Schedule 3.2(a)(iii), to each other and to the CPUC, CEOB, and the AG.

b. Subject to the satisfaction of the Closing conditions precedent described below, the following actions shall take place on or by the Closing Date:

(i) Credit Documents. Williams shall deliver Credit Document(s) in support of the Tranche A payments. Such Credit Documents shall include a Letter of Credit in an amount of not less than \$45,000,000 with an expiration date not earlier than July, 2003, provided Credit Documents delivered before the Closing date shall not be effective until the Closing date.

(ii) Bill of Sale. Owner Trustee shall execute and deliver one or more Bills of Sale, the form of which shall be the same or substantially similar to the document attached hereto and made a part hereof as Schedule 3.2(b), to transfer and assign the Property to the AG or its designee(s). Any transfer or assignment of Property pursuant to the preceding sentence shall not be effective until the Closing Date.

(iii) Williams and Williams Companies shall (i) make the first payment as described in Paragraph 1.16(a) and shall pay such remaining amounts of the Tranche A Payments as have not been subject to credit support pursuant to Section 3.2(b)(i).

(iv) Consents. Williams shall deliver a written document, satisfactory in form and substance to the AG, executed by GE Packaged Power, Inc. affirming that the warranties on the Property will not expire until 24 months following the dates specified in Schedule 3.2(b)(iv).

3.3 Private Parties' Provisions:

a. No later than five (5) business days after the Closing Date, Civil Plaintiffs' Counsel shall submit this Settlement Agreement together with its schedules to the court in which the Wholesale Electricity Antitrust Cases I & II are pending on the date of submission (the "Court") and shall apply for entry of an order (the "Notice Order"), to be agreed to by Williams and Civil Plaintiffs' Counsel. The Notice Order will request, *inter alia*:

(i) Certification of the Class for settlement purposes only;

(ii) Preliminary approval of the settlement set forth in the Settlement Agreement; and

(iii) Approval of the dissemination of a settlement notice or notices, in a form to be agreed to by Williams and Civil Plaintiffs' Counsel, which shall set forth the general terms of the settlement set forth in the Settlement Agreement and the date of the Settlement Hearing as defined below. Williams and Civil Plaintiffs' Counsel shall propose to the Court that notice be provided by such methods as are agreed to between Williams and Civil Plaintiffs' Counsel.

b. The Private Parties and Williams shall be responsible for paying the costs of notice to the Class as follows:

(i) Civil Plaintiffs' Counsel shall pay the costs of notice in the form ordered by the Court not to exceed \$250,000. As set forth below, the Private Parties (through their counsel) shall be entitled to draw upon the Fee and Expense Fund to pay for the costs of this notice.

(ii) If the costs of notice in the form ordered by the Court do not exceed \$250,000, then Williams shall have no responsibility for payment of any notice costs. If the costs of notice exceed \$250,000, then Williams shall pay the remaining costs of notice, not to exceed an additional \$250,000.

(iii) If the estimated cost of notice in the form ordered by the Court exceeds \$500,000 (the \$250,000 to be paid by Civil Plaintiffs' Counsel pursuant to paragraph 3.3(b)(i) and the \$250,000 to be paid by Williams pursuant to paragraph 3.3(b)(ii)), then Williams or Williams Companies and Civil Plaintiffs' Counsel shall attempt to reach agreement on further allocation of any additional costs of notice; provided, however, Williams or Williams Companies and the Private Parties shall have, in their sole and absolute discretion, the option to pay the additional costs of notice above \$500,000 or to terminate this Settlement Agreement as to the Private Parties.

c. Civil Plaintiffs' Counsel shall request that after notice is given, the Court hold a hearing (the "Settlement Hearing") in which it shall approve the settlement of the Civil Actions as set forth herein as fair, adequate and reasonable to the Class, and enter a final judgment of dismissal with prejudice pursuant to the settlement as to Williams, the Williams Companies, William E. Hobbs, Keith E. Bailey, and Steven J. Malcolm.

d. If prior to the Settlement Hearing, any Persons who otherwise would be Members of the Class have timely requested exclusion ("Requests for Exclusion") from the Class in accordance with the provisions of the Notice Order and the notice given pursuant thereto, and such Persons in the aggregate represent claims in an amount greater than an amount to be set forth in a supplemental agreement between Williams and Civil Plaintiffs' Counsel, Williams or Williams Companies shall have, in its sole and absolute discretion, the option to terminate this Settlement Agreement as to the Private Parties. Copies of all Requests for Exclusion received, together with copies of all written revocations of Requests for Exclusion received shall be delivered to Williams' and Williams Companies' counsel within seven (7) business days before the Settlement Hearing.

e. Solely for the purposes of the settlement of the Civil Actions, the Parties agree to the certification of the Class as defined above in Paragraph 1.18 for settlement purposes; and Civil Plaintiffs' Counsel and Williams agree to jointly request the Court to enter an order, which, among other things, certifies the Class, as set forth in paragraph 3.3(a)(i). In the event this Settlement Agreement and the settlement proposed herein is not finally approved, or is terminated, canceled, or fails to become effective for any reason, this class certification, solely for the purpose of the settlement of the Civil Actions, shall be null and void and the Private Parties, the California Cities and Counties, the Water Districts, Williams and the Williams Companies will revert to their respective positions immediately prior to the Closing Date. Under no circumstances may this Agreement be used as an admission or evidence concerning the appropriateness of class certification should this Settlement Agreement be terminated in whole or

part. Williams and Williams Companies reserve the right to oppose class certification should the Settlement Agreement be terminated in whole or part.

f. The releases in Paragraph 4.5, and in Paragraph 4.9 as they relate to the Private Parties shall become effective upon, and any obligations to return any payments from the Fee and Expense Fund as set forth in Paragraph 4.18 shall terminate upon:

(i) A final determination by the Court pursuant to California Code of Civil Procedure section 877.6 that this Settlement Agreement was made in good faith and final conclusion of any petition for mandate;

(ii) Certification of the Class for settlement purposes and final judgment after final court approval of the settlement, including any appeal;

The first day on which all of these events shall have occurred shall be called the “Class Settlement Effective Date.” Notwithstanding this provision, prior to the Class Settlement Effective Date, the Civil Plaintiffs’ Counsel shall be entitled to draw upon the Fee and Expense Fund to pay for the costs of Class Notice.

3.4 The AG may, at its sole option, waive execution and delivery of Consents required by Paragraph 3.2(b)(iv) of this Settlement Agreement. Any such waiver, which must be in writing and signed by the AG, shall not affect the effectiveness of the releases provided for in this Settlement Agreement in Paragraphs 4.1 through 4.5 and Paragraph 4.9.

3.5 Any of the agreements described above in Paragraphs 3.2(a), (b) and (c) which are signed only by parties to this Settlement Agreement may be signed in any number of counterparts, each of which is equally admissible in evidence and shall be deemed to be one and the same instrument. No such agreement shall take effect, however, until each Party to that agreement has signed a counterpart.

3.6 Conditions Precedent:

a. The following conditions precedent shall be satisfied prior to the Phase I Execution:

(i) the Phase I Parties shall have obtained all necessary internal consents and shall have taken all internal actions necessary to authorize the performance of their obligations herein;

(ii) notwithstanding any other provision contained in this Settlement Agreement, this Settlement Agreement, the Renegotiated Contracts, and the Gas Contract shall not become effective until and unless the CPUC shall have considered and voted to approve and adopt this Settlement Agreement and communicated the outcome of such vote to Williams and the California State Releasing Parties; and

(iii) each Phase I Party shall have performed any obligation required to be performed by that Party prior to the Phase I Execution Date or, if permitted to be

performed on the Closing Date, has demonstrated to the reasonable satisfaction of the other Parties that it is capable of performing such obligations by the Closing Date.

b. The following conditions precedent shall be satisfied by or prior to December 31, 2002, or by a date certain as specified below, if any:

(i) Requests by the CEOB and the CPUC advising the FERC that a resolution between themselves and Williams concerning claims regarding the Original Contracts has been reached and requesting that the FERC suspend such proceedings as between the CEOB and CPUC and Williams only relating to such claims pending the Closing at which time they will seek an order allowing the withdrawal of such claims;

(ii) Issuance by the FERC of an order in the Refund Proceeding granting Williams' motion to dismiss claims for refunds due to any of the California State Releasing Parties or in relation to any Electric Power provided to the CDWR that is or may be subject to the Refund Proceeding from Williams or the Williams Companies (the "Refund Order"). Receipt of the Refund Order shall not be a condition precedent to closing unless Williams and the Williams Companies, within ten (10) Business Days from the Phase I Execution, files a Motion to Dismiss in the Refund Proceeding in which it shall advise FERC that resolution has been reached between themselves and the State Releasing Parties concerning such actions and complaints and that each of CDWR, CEOB and CPUC have agreed to release claims as described in Paragraph 4.3 hereof. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement. The Parties will cooperate and assist each other in good faith in the preparation and filing of such motion;

(iii) If Williams and the Williams Companies have filed the Motion to Dismiss described in Paragraph 3.6(b)(ii), the State Releasing Parties shall file a responsive pleading consistent with the terms and conditions of this Settlement Agreement within five (5) Business Days thereafter; and

(iv) Williams and the Williams Companies shall have (i) made the payment described in Paragraph 1.16(a), and (ii) delivered to the AG or its designee(s) the Credit Documents described in Paragraph 3.2(b)(i) (except to the extent additional payments shall have been made pursuant to Paragraph 3.2(b)(iii).

Absent the express written agreement of Williams and the California State Releasing Parties extending the time to satisfy or waiving any of the conditions set forth in this Paragraph 3.6, if each of the conditions have not been fulfilled on or prior to the dates specified above, then this Settlement Agreement shall be null and void and of no further effect, with all rights, duties and obligations of the Parties thereafter restored as if this Settlement Agreement had never been executed; provided, however that if all of such conditions other than Williams' obligations in Paragraph 3.6(b)(iv) have been fulfilled, the AG shall be entitled to enforce such obligations of Williams, in which event this Agreement shall not so terminate.

3.7 The releases and other Consideration provided for in this Settlement Agreement, including without limitation the releases set forth in Paragraphs 4.1 through 4.5 and Paragraph

4.9 (excluding the releases as they relate to the Private Parties) shall become effective retroactive to the Phase I Execution Date. The releases set forth herein in Paragraphs 4.5 and 4.9 (with respect to the Private Parties) shall become effective, retroactive to the Phase I Execution Date, upon the Class Settlement Effective Date as set forth in Paragraph 3.3(f).

3.8 This Settlement Agreement and the transactions contemplated hereby may be terminated at any time prior to the Closing Date by written notice delivered by the California State Releasing Parties to Williams and the Williams Companies or by Williams or the Williams Companies to the California State Releasing Parties, as the case may be, in the following instances (each a "Termination Event"):

a. by the California State Releasing Parties if there has been a material misrepresentation, a material breach of warranty, or a material failure to comply with any covenant or agreement on the part of Williams or Williams Companies with respect to any of their representations, warranties, covenants or agreements set forth herein, and such misrepresentation, breach, or failure to comply has not been cured within five (5) Business Days of receipt by Williams and Williams Companies from the California State Releasing Parties of written notice thereof; provided, however, that any failure by Williams or Williams Companies to perform its or their obligations under Paragraph 4.7 hereof shall constitute a material failure to comply with an agreement and shall not be subject to such notice and cure period;

b. by Williams or Williams Companies if there has been a material misrepresentation, a material breach of warranty, or a material failure to comply with any covenant or agreement on the part of the California State Releasing Parties with respect to their representations, warranties, covenants or agreements set forth herein, and such misrepresentation, breach, or failure to comply has not been cured within five (5) Business Days of receipt by the California State Releasing Parties from Williams or Williams Companies of written notice thereof;

c. by the mutual written consent of the California State Releasing Parties, Williams and the Williams Companies;.

d. by the AG, before December 15, 2002 if the AG, in his sole discretion, determines that there is evidence of illegal conduct by Williams or the Williams Companies in the Gas or Electric Power markets of which he was not previously aware or if Williams or the Williams Companies fail to fully cooperate in good faith with the AG's due diligence review.

3.9 From time to time after the Closing, the Parties shall cooperate in consummating the settlement and release of claims and exchange of consideration provided for herein. This cooperation shall include, without limitation, the execution of such instruments of conveyance, assignment, transfer and delivery, release and waiver, the filing of additional complaints by the Private Parties as necessary to obtain the release set forth in Paragraph 4.5 herein and the provision of submissions, stipulations and other filings with courts and regulatory agencies, and the provision of such additional documents or taking of such other action as any Party may reasonably request.

4. **Mutual Releases and Waivers.**

4.1. Original Contracts and the Renegotiated Contracts:

Each of the California State Releasing Parties for itself hereby releases, acquits and forever discharges any and all claims of any nature whatsoever that it ever had, now has, or hereafter can, shall, or may have against Williams or Williams Companies based on, or arising out of, in whole or in part, (a) the Original Contracts, or (b) issues relating to effectiveness, due authorization, validity, or enforceability of any of the obligations of any of the California State Releasing Parties under the Renegotiated Contracts or the Gas Contract or whether such obligations are Just and Reasonable. This release does not constitute a waiver by the California State Releasing Parties of the right to pursue remedies under the Renegotiated Contracts or the Gas Contract for acts and omissions from and after the Phase I Execution Date as provided therein, including but not limited to (a) claims of breach of an obligation created by the Renegotiated Contracts, (b) claims of failure to perform under the Renegotiated Contracts, and (c) disputes over the obligations created by, or the meaning of any terms used in the Renegotiated Contracts. The release in this Paragraph 4.1 applies only to matters based on, or arising out of, in whole or in part, the generation, sale, purchase, ownership, dispatch and/or transmission of Electric Power, and/or Gas pursuant to the Original Contracts and the Renegotiated Contracts, and does not include matters of general applicability including, without limitation, environmental, permitting, health, safety and taxation.

Each of the California State Releasing Parties waives all rights to challenge the terms, conditions, rates or validity of the Renegotiated Contracts or the Gas Contract or whether each such contract is Just and Reasonable for and with respect to the entire term thereof, including any rights under Sections 205 and 206 of the Federal Power Act to request the FERC to revise the terms and conditions and the rates or services specified in the Renegotiated Contracts or the Gas Contract, and hereby further agrees to make no filings at the FERC or with any other state or federal agency, board, court or tribunal challenging the rates, terms and conditions of the Renegotiated Contracts or the Gas Contract as to whether they are Just and Reasonable or in the public interest. It is further agreed that, in the event of any future challenges to the Renegotiated Contracts or the Gas Contract for any other reason, the Parties will not dispute the applicability, as to the Parties, of the public interest standard as that term has been defined and interpreted under the Federal Power Act or the Natural Gas Act and the cases of *United Gas Pipe Line Co. v. Mobile Gas Corp.*, 350 U.S. 332 (1956), and *FPC v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956), and subsequent cases.

The Unnamed California Cities, Counties and Political Subdivisions also release any claims they may have relating to the Original Contracts, Renegotiated Contracts, or Gas Contract.

4.2. Original Contracts, Renegotiated Contracts and FERC:

The CEOB and CPUC hereby agree to seek suspension and withdrawal with prejudice, as to Williams and the Williams Companies only, all actions or complaints set forth in the CPUC Complaint and the CEOB Complaint pertaining to the Original Contracts pursuant to the procedures set forth in Paragraph 4.12. In filing to suspend and withdraw the CPUC Complaint

and the CEOB Complaint, the CPUC and the CEOB shall advise FERC that resolution has been reached between themselves and Williams and the Williams Companies concerning such actions and complaints. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement.

This provision shall not restrict in any way the ability of the CEOB or the CPUC to continue to participate in the CPUC Complaint or CEOB Complaint as against the other parties named therein.

4.3. CDWR, CEOB and CPUC: Refund Proceeding:

Each of the CDWR, CEOB, and CPUC hereby releases, acquits and discharges Williams and the Williams Companies from any and all claims of any nature whatsoever that they have ever had, now have, or hereafter may have against Williams or the Williams Companies based on the alleged existence or exercise of market power prior to the Phase I Closing or for charges for excessive or unlawful charges for Electric Power or Gas including, without limitation, claims to receive refunds, credits, payments or compensation or consideration of any kind from Williams or the Williams Companies related to claims that were alleged or could have been alleged in the Refund Proceeding. Nothing in this release shall preclude the CDWR, CEOB, and CPUC from otherwise continuing their participation in the Refund Proceeding to the ultimate conclusion of that proceeding, including any actions on appeal as to parties other than Williams or the Williams Companies, nor does anything herein release such claims or entitlement of any other parties, such as the IOUs, to refunds in the Refund Proceeding.

Each of CDWR, CEOB, and CPUC hereby releases, acquits and discharges Williams from claims, including for refunds, (a) arising from sales, acts or omissions prior to the Effective Date related to the operation and management of generation facilities, and the generation, dispatch, purchase, marketing, sale, or transmission of Electric Power or Gas, and without limitation of the foregoing (b) any and all federal or state antitrust or unfair competition claims based on, arising out of or in any way related to the Original Contracts, the Gas Contract, or Renegotiated Contracts.

The releases set forth in this Paragraph 4.3 shall not restrict the ability of the CDWR, CEOB, and CPUC to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against Williams but which could indirectly affect the Williams or the Williams Companies, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and generally applicable price mitigation, provided, however, this Settlement Agreement does release all claims by CDWR, CEOB and CPUC for monetary damages or compensation of any kind based on the participation of Williams or Williams Companies in the California Electric Power markets prior to the Phase I Execution. The releases in this Paragraph 4.3 apply only to matters based on, or arising out of, in whole or in part, the generation, sale, purchase, ownership, dispatch and/or transmission of Electric Power, and/or Gas and do not include matters of general applicability including, without limitation, environmental, permitting, health, safety and taxation. This Paragraph 4.3 does not affect any of the Parties' rights and obligations in pending Reliability Must Run proceedings, or in pending proceedings pertaining to market-based rate authority;

provided however that it is not the intent of the maintenance of such rights and obligations to prevent or preclude performance by Williams of the Renegotiated Contracts.

While the CPUC is releasing its claims as described in this paragraph 4.3 for monetary damages or compensation of any kind against Williams and the Williams Companies, this paragraph 4.3 does not restrict the ability of the CPUC to continue its investigation of generator operation and maintenance, or from collecting information or investigating any matter for the purposes of making policy and/or legal arguments for rule changes, market reform, market mitigation, or related matters, or from making such policy arguments in any forum, based on information resulting from such investigation.

CDWR, CPUC, and CEOB shall terminate any and all investigations as to Williams or Williams Companies as they relate to the pursuit of claims released in this Paragraph 4.3 and shall not initiate any new investigations against Williams or Williams Companies that are related to the pursuit of claims released in this Paragraph 4.3. This does not limit the CEOB, CDWR or the CPUC in collecting information or in investigating any matter not related to the claims released in this Paragraph 4.3. This paragraph 4.3 does not restrict the ability of the CPUC to continue its investigation of generator operation and maintenance, or to carry out its responsibilities under SB 39XX. In the event that: (i) the order referred to in Paragraph 3.6(b)(ii) hereof is overturned, rescinded, retracted, or is otherwise rendered ineffective by the FERC or any court of appeals; (ii) Williams or the Williams Companies is subjected to a final nonappealable order explicitly directing Williams or the Williams Companies to pay refunds due to CDWR either (a) directly to CDWR or (b) to a third party; (iii) such refunds are awarded for claims in the Refund Proceeding that are released or waived pursuant to this Paragraph 4.3; and, (iv) Williams or the Williams Companies pays such refunds as ordered; then, if Williams so elects and in its sole discretion, the release in this Paragraph 4.3, as it relates to the Refund Proceeding shall be void and of no force or effect. If the releases herein related to the Refund Proceeding are voided pursuant to the preceding sentence, the payor (Williams or the Williams Companies, as appropriate) shall be entitled to a reduction in the Consideration provided for such releases in the following manner:

(1) for each refund dollar that Williams or the Williams Companies pays as ordered, an equal sum shall be recovered by Williams by way of the additional net revenues associated with maintaining the same Net Dependable Capacity and maintaining the same Base Capacity Payment in effect as of December 2007 for so long as is required to offset refunds that Williams or the Williams Companies is required to pay. In no event shall such period extend beyond the Delivery Period set forth in the Product D Transaction. To the extent such additional revenues are not sufficient to offset dollar for dollar the refunds paid by Williams as described herein, the price of Product B as set forth in the Product A, B, C, Transaction, shall be adjusted upward in each year, beginning January 2006, by \$5.80/MWh for such additional period as is necessary to offset such refunds paid by Williams or the Williams Companies but in no event beyond the Delivery Period associated with Product B as set forth in the Product A, B, C Transaction. All capitalized terms in this Paragraph have the meanings set forth in the Product D Transaction and Product A, B, C Transaction, respectively.

4.4 Release of the AG, the Northwest AG's and the Unnamed California Cities, Counties and Political Subdivisions:

a. The AG and each of the Northwest AGs and the and each of the Unnamed California Cities, Counties and Political Subdivisions hereby release, acquit and forever discharge any and all claims of any nature whatsoever that they ever had, now have, or hereafter can, shall, or may have against Williams or Williams Companies, based on, arising out of or in any way related to:

(i) the AG Investigation as defined in Paragraph 2.15, including each allegation or claim that was or could have been asserted against Williams or Williams Companies;

(ii) the Northwest AGs Investigation as defined in Paragraph 2.18, including each allegation or claim that was or could have been asserted against Williams or Williams Companies;

(iii) the AG Profiteering Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG Profiteering Complaint;

(iv) the AG Clayton Act Investigation or Clayton Act Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG Clayton Act Investigation or Clayton Act Complaint;

(v) the AG Unfair Competition Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG Unfair Competition Complaint;

(vi) the AG 206 Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG 206 Complaint;

(vii) the Refund Proceeding, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the Refund Proceeding;

(viii) the CEOB Complaint or CPUC Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the CEOB Complaint or CPUC Complaint;

(ix) the sale, purchase, offer, bidding, marketing, trading, or withholding of bids or offers, of Electric Power or Gas in California, Washington or Oregon at any time prior to the Phase I Execution Date, including any claimed overcharges or refunds;

(x) the acquisition, operation, dispatch, ownership, control or management of any Electric Power generation facilities or any interest in or dispatch rights to the output

of such facilities including any alleged withholding of supply, exercise of alleged market power, or alleged failure to provide Electric Power or Gas at any time prior to the Phase I Execution Date;

(xi) any violations or claimed violations of any rules, regulations, orders or protocols of any state or federal agency having or claiming to have regulatory authority over any conduct that is the subject of any Released Claims including, without limitation, the Federal Power Act and/or any rules, regulations, tariffs, protocols or orders which occurred prior to the Phase I Execution Date;

(xii) any claims for refunds, contract reformation or any other relief, any federal or state antitrust claims or any claims under Business & Professions Code section 17200 et seq. relating in any way to the Litigation Claims, the Original Contracts or the Renegotiated Contracts; and

(xiii) subject to the limitations set forth in Paragraph 4.13 hereof, any information provided to the AG prior to the Phase I Execution to the extent related to the claims released under clauses (i) through (xii) of this Paragraph 4.4(a), including any such allegation or claim that was or could have been asserted against Williams or Williams Companies related in any way to any information sought by or produced in response to Williams obligations under Paragraph 4.6 below

b. This release does not affect the right of the AG or the Northwest AGs to pursue criminal prosecution for any acts or omissions by Williams and the Williams Companies both before or subsequent to the Phase I Execution Date. This release applies only to matters that are based on, or arising out of, in whole or in part, the operation and management of generation facilities, and the generation, purchase, sale, ownership, dispatch, and/or transmission of Electric Power, and/or Gas, and does not include matters of general applicability, including, without limitation, environmental, permitting, health, safety and taxation. This Paragraph shall not restrict the ability of the AG or the Northwest AGs to continue to participate in any existing proceeding, or to bring or participate in any future proceeding, that does not include specific claims against Williams or the Williams Companies but could indirectly affect them, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and generally applicable price mitigation, provided, however, this Settlement Agreement does release all claims for monetary damages or compensation of any kind based on the participation of Williams or Williams Companies in the California Electric Power and Gas markets prior to the Phase I Execution Date. This release is modified by Paragraph 4.13 below.

c. The AG further agrees that it (i) will voluntarily withdraw or dismiss with prejudice (or, if necessary by applicable rule, request withdrawal or dismissal with prejudice from the court or tribunal) within two (2) Business Days of the Closing Date all pending claims or actions against Williams or Williams Companies, including without limitation the AG Unfair Competition Complaint, the AG 206 Complaint and the AG Profiteering Complaint and will terminate all outstanding investigations and all subpoenas to Williams or Williams Companies relating to the Released Claims, including without limitation the AG Investigation, the AG Subpoenas, and the AG Clayton Act Investigation, and (ii) will not file any actions or initiate any formal or informal investigations based on, arising out of or related to any Released Claims

or any legal theory based on or related to conduct underlying any of the Released Claims, including without limitation Business and Professions Code § 17200 or federal or state antitrust statutes, against Williams or Williams Companies.

d. AES/Williams Tolling Agreement. The AES Contract, whereby AES owns and operates generating units and Williams markets the power, creates a somewhat unique structure with respect to the California market. The Attorney General has conducted an investigation into alleged anticompetitive aspects of the AES Contract and agrees to the following limitations in connection with any relief or remedies that he may seek from AES in connection with the investigation.

(i) The Attorney General will not seek monetary remedies from AES for any portion of alleged anticompetitive conduct attributable to Williams pursuant to operation or enforcement of the AES Contract .

(ii) The Attorney General will not seek relief from AES, monetary or otherwise, that will preclude Williams from performing its obligations pursuant to the Renegotiated Contracts.

(iii) The CPUC and CEOB will not bring any action against AES for the purpose of hindering the ability of Williams to perform under the Renegotiated Contracts.

4.5 Release by California Cities and Counties, California Water Districts and Private Parties:

The Private Parties, the Class, the California Cities and Counties and the Water Districts hereby release, acquit and forever discharge any and all claims of any nature whatsoever that they ever had, now have, or hereafter can, shall, or may have against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and Steven J. Malcolm based on or arising out of the claims that were or could have been asserted in any of the Civil Actions, the Bustamante Action, the Water District Action, or the Cities' and Counties' Action, and any other acts or omissions by or of Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm related to their participation in the California Electric Power markets from January 1, 1998 to the Effective Date, including, without limitation, the acquisition, operation and management of facilities for the generation of Electric Power or dispatch rights to such facilities or the Electric Power generated from such facilities or the generation, purchase, sale, trading, marketing or transmission of Electric Power prior to the Closing Date, including but not limited to (a) claims related to the Original Contracts, Renegotiated Contracts, and Gas Contract, (b) claims under California Business & Professional Code § 17200, and (c) any federal or state antitrust claims, or (d) any taxpayer or other representative claims.

This Paragraph shall not restrict the ability of plaintiffs in the Wholesale Electricity Antitrust Cases I & II to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm. This settlement shall not release any claims against any entity (except for Williams, Williams

Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm) and shall in no way restrict the ability of plaintiffs in Wholesale Electricity Antitrust Cases I & II to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm but could indirectly affect them, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and generally applicable price mitigation; provided, however, this Settlement Agreement does release all claims for monetary damages or compensation of any kind as against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm based on their participation in the California Electric Power markets prior to the Effective Date. To the extent the Private Parties pursue any claim against AES, such parties shall be subject to the limitations applicable to the AG as set forth in Paragraphs 4.4(d)(i) and (ii).

4.6 Williams Cooperation:

Williams agrees to cooperate with the AG and the Northwest AGs in their civil investigation of the Electric Power and Gas markets in California, Oregon and Washington and to cooperate with the Private Parties, Water Districts and Cities and Counties in the Wholesale Electricity Antitrust Cases I & II (“Cooperating Parties”), provided that such cooperation shall not obligate Williams to waive any privileges. As part of its ongoing cooperation obligations, Williams shall make witnesses available for interviews and depositions by the Cooperating Parties at mutually convenient times and locations. The Cooperating Parties will seek information in a focused manner, and will work with Williams to streamline information and requests as appropriate. The witness interviews, depositions and all documents disclosed pursuant to this Paragraph 4.6 will be subject to the existing or future confidentiality agreements and protective orders between Williams and the Cooperating Parties and the confidentiality provisions of Calif. Govt Code Section 11180, *et seq.* As a further part of its ongoing cooperation, Williams will continue to produce documents to the Cooperating Parties as requested. All documents provided to the Cooperating Parties pursuant to this Settlement Agreement will also be treated as confidential under Section 11180, *et seq.* Williams shall not contend that the AG has violated Cal. Govt. Code Section 11180 *et seq.* by providing documents received from Williams to the Cities and Counties, the Water Districts and the Private Parties. The documents produced to the Cooperating Parties by Williams under this Settlement Agreement and pursuant to the Cooperating Parties’ subpoenas can be used by the Cooperating Parties in litigation against third parties pursuant to a court approved protective order. The Cooperating Parties shall give reasonable notice to Williams of their intent to use such documents in litigation which notice shall specify the terms of the protective order under which they may be used. The Cooperating Parties will promptly notify Williams in writing when their investigations are closed. This provision for continuing cooperation by Williams shall extend to the conclusion of the Cooperating Parties’ litigation and active investigation of California energy markets, and including cooperation through any trials and appeals as necessary.

4.7 Consideration for Releases in Paragraphs 4.1 through 4.5 Inclusive:

a. In consideration for the release of the above-described claims, Williams and Williams Companies agree to provide the following consideration (collectively, the “Consideration”):

- i. Cash Consideration;
- ii. Renegotiated Contracts;
- iii. Gas Contract;
- iv. Bill of Sale;
- v. Credit Documents, as more fully described in Paragraph 3.2(b)(i), subject to Paragraph 3.2(b)(iii);
- vi. the cooperation described above in Paragraph 4.6;
- vii. the Williams Companies Guaranty;
- viii. the release provided for in Paragraph 4.9; and
- ix. to take all other action expressly required of Williams and Williams Companies under the terms of this Settlement Agreement.

b. This Settlement Agreement encompasses renegotiated long-term contract terms as well as consideration for resolution of claims of the various parties to the settlement. Consideration for those claims includes \$147 million in cash and approximately \$90 million in-kind. Additional consideration for those claims has been captured within the terms of the Renegotiated Contracts, including approximately \$180 million related to the price of natural gas, capacity, and Electricity

c. The Parties understand and acknowledge that none of the Consideration represents any civil fines or penalties, and all Consideration represents payment for alleged overcharges, damages or restitution allegedly owed to the States of California, Oregon and Washington and their agencies, departments, cities, counties, political subdivisions and citizens, including without limitation the California State Releasing Parties, California Water Districts, California Cities and Counties, Unnamed California Cities, Counties and Political Subdivisions, the Northwest AGs, and the Private Parties in connection with the Released Claims herein including, without limitation, claims related to alleged unlawful or excessive charges for Electric Power or Gas by Williams or Williams Companies prior to the Phase I Execution Date.

d. The AG informs Williams that as of the execution of this Settlement Agreement, it will distribute the Cash Consideration as described in Schedule 4.7(d) hereto. Williams has no obligation to ensure that the funds are distributed as represented by the AG, and the failure to distribute the funds in accordance with this schedule shall not be a basis for challenging the validity or enforceability of this Settlement Agreement.

4.8 Cash Consideration/Rights Upon Default:

a. Upon the occurrence of any one of the following events, the AG or its designee may, at its option and without notice or demand upon Williams or Williams Companies, immediately accelerate the Cash Consideration, making the entire amount of the outstanding Cash Consideration (as adjusted pursuant to this Paragraph 4.8(a)) immediately due and payable in full, and thereafter exercise any of its rights and remedies hereunder, under the Credit Documents, or under applicable law to recover the Cash Consideration (each an “Event of Default”):

(i) the failure by Williams to make any payment of the Cash Consideration within five (5) Business Days of when due, or the failure by Williams or Williams Companies to provide and maintain in effect Security Documents as set forth in Paragraph 4.8(c), without notice or right to cure;

(ii) a breach by Williams or Williams Companies (but not any successor or assign excluding any Williams or Williams Companies affiliates) under this Settlement Agreement, the Gas Contract, the Security Documents, or the Renegotiated Contracts (collectively, the “Settlement Documents”) which is not cured within any applicable grace period;

(iii) the inaccuracy in any material respect of any representation or warranty of Williams or Williams Companies contained in the Settlement Documents; or

(iv) the assignment or transfer, whether directly, indirectly, or by operation of law (including, without limitation, any transfer by merger), by Williams of any or all of its rights and obligations under any of the Renegotiated Contracts other than a collateral assignment in favor of Williams’ senior secured bank lender(s) without the AG’s prior written consent unless simultaneous with such transfer, Williams pays to the AG or its designee(s) the Tranche B Payments.

Notwithstanding the foregoing, (x) in the event of an acceleration of the Cash Consideration pursuant to this clause (a) above, the Tranche B Payments shall be reduced to their then net present value utilizing a discount rate equal to 10% per annum provided that the net present value of Tranche B Payments if accelerated on the following dates shall be as follows: (A) for payment on or prior April 1, 2003, \$25,700,000; (B) for payment after April 1, 2003 and on or prior to July 1, 2003, \$26,300,000; (C) for payment after July 1, 2003 and on or prior to October 1, 2003, \$27,000,000; and, (D) for payment after October 1, 2003 and on or prior to January 1, 2004, \$27,700,000., and (y) an acceleration pursuant to clause (iv) above shall result only in the acceleration of the Tranche B Payments and of the payment due pursuant to Paragraph 1.16(iv).

b. Williams shall be entitled to prepay any of the Cash Consideration, in whole or in part, at any time or from time to time without premium or penalty; provided, however, that any prepayment of the Tranche B Payments shall be reduced to the then current net present value thereof, calculated using a discount rate of ten percent (10%) per annum. The net present value of Tranche B Payments if prepaid in full on the following dates shall be as follows: (i) for

prepayment on or prior to April 1, 2003, \$25,700,000; (ii) for prepayment after April 1, 2003 and on or prior to July 1, 2003, \$26,300,000; (iii) for prepayment after July 1, 2003 and on or prior to October 1, 2003, \$27,000,000; and (iv) for prepayment after October 1, 2003 and on or prior to January 1, 2004, \$27,700,000.

c. Williams shall pay to the AG or its designee, upon demand, any and all costs (including reasonable attorneys' fees) reasonably incurred by the AG or its designee in connection with enforcing or collecting the Cash Consideration not paid when due by Williams.

d. Any Cash Consideration not paid by Williams when due shall bear interest from such due date until paid at a rate equal to the greater of (i) fifteen percent (15%) per annum, or (ii) the prime rate (as published in the money rates section of The Wall Street Journal on the default date) plus six percent (Prime + 6%), compounded monthly.

e. Credit Default Swaps

(i) Any Credit Default Swap provided as a Credit Document shall meet the criteria set forth in Schedule 1.25 and be otherwise satisfactory in form and substance to the AG, and be issued by Bank of America or another single financial institution acceptable to the AG (an "Eligible CDS party") with Fixed and Floating Rate Payor Calculation Amounts equal to or greater than 125% of the amount of Tranche A Payments to be supported.

(ii) Williams shall prepay fees for any Credit Default Swap provided hereunder for the initial two successive calendar quarters and thereafter prepay succeeding calendar quarters one full quarter in advance of that calendar quarter. Williams agrees to pay each Fixed Payment due under any Credit Default Swap entered into or obtained pursuant to this Paragraph 4.8 not less than one calendar quarter before such Fixed Payment becomes due and to deliver or cause to be delivered to the AG a written receipt from the Floating Rate Payor under such Credit Default Swap not less than eighty (80) days before such Fixed Payment becomes due.

(iii) To the extent any payment under any Credit Default Swap issued pursuant to this clause exceeds the amount owed to the AG under Tranche A, then such excess amount will be applied by the AG against Williams' obligations to the AG under Tranche B.

f. Williams agrees to put into place any other Credit Document(s) to replace any Credit Document that is expiring, lapsing or terminating to the extent any outstanding Tranche A Payments would otherwise be without credit support, except as provided in clause (e), such replacement Credit Documents to be executed and delivered to the AG not less than thirty (30) days before the expiration, lapse or termination date of the Credit Document being replaced. Notwithstanding any other provision in this Agreement, there shall be no cure period with respect to any failure to perform by Williams under this Paragraph 4.8.

g. The AG shall not be deemed to have waived any of its rights under this Paragraph or otherwise unless such waiver is in writing and signed by the AG. The AG's failure to require strict performance of the terms, covenants and agreements of this Paragraph, the Settlement Documents, or any delay or omission on the part of the AG in exercising any right, or any acceptance of partial or adequate payment or performance shall not waive, affect or diminish such right or Williams' or Williams Companies' duty of compliance and performance therewith. A waiver on any one occasion shall not be construed as a bar to or waiver of the same or any other right on the same or any future occasion. All rights and remedies of the AG under this Paragraph 4.8 or any other of the Settlement Documents shall be cumulative and may be exercised singularly or concurrently.

4.9 Williams Release:

Williams hereby releases, acquits and forever discharges any and all claims of any nature whatsoever that it ever had, now has, or hereafter can, shall, or may have against the Parties based on, or arising out of, in whole or in part, (a) the Original Contracts, or (b) issues relating to effectiveness, due authorization, validity, or enforceability of any of the obligations of any of the Parties under the Renegotiated Contracts or whether such obligations are Just and Reasonable. This release does not constitute a waiver by Williams of the right to pursue remedies under the Renegotiated Contracts for acts and omissions from and after the Phase I Execution Date as provided therein, including but not limited to (a) claims of breach of an obligation created the Renegotiated Contracts, (b) claims of failure to perform under the Renegotiated Contracts, and (c) disputes over the obligations created by, or the meaning of any terms used in the Renegotiated Contracts. This release does not constitute a waiver of any claims by Williams that actions of the Parties subsequent to the Phase I Execution Date may constitute an "impairment of contract," as used in the California and United States Constitution, with respect to the Renegotiated Contracts.

Williams and Williams Companies hereby release, acquit, and forever discharge the California State Releasing Parties, California Water Districts, the California Cities, Counties and Political Subdivisions, the Northwest AGs, and the Private Parties from any and all claims arising on or before the Phase I Execution Date related to the claims described in Paragraphs 4.1, 4.2, 4.3, 4.4, and 4.5.

4.10 The releases set forth above in Paragraphs 4.1, 4.2, 4.3, 4.4, 4.5, and 4.9 shall run to, benefit, and be enforceable by all of the present and former officers, directors, employees, agents, legal representatives, successors, and assigns of All Releasing Parties. No other parties that are not a party to this Settlement Agreement shall be entitled to the benefits of, and entitled to enforce, the releases provided for in such Paragraphs.

4.11 Notwithstanding anything herein to the contrary, nothing in Paragraphs 4.1 through 4.10 inclusive shall constitute a limitation to, or waiver of, any right to enforce any obligation or pursue any remedy provided under this Settlement Agreement or the Renegotiated Contracts or the Gas Contract (including the enforcement of the releases provided by the Parties hereunder).

4.12 The CEOB and CPUC hereby agree to withdraw with prejudice, by means of filing a Notice of Partial Withdrawal, pursuant to 18 C.F.R. § 385.216(a), as to Williams only, all actions or complaints set forth in the CPUC Complaint and the CEOB Complaint pertaining to Williams within two (2) Business Days following the Closing Date following suspension of such proceedings as provided in Paragraph 3.6(b). In filing to withdraw the AG 206 Complaint, the CPUC Complaint and the CEOB Complaint as to Williams, the AG, the CEOB and the CPUC shall each advise the FERC that resolution has been reached between it and Williams concerning such actions and complaints. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement. In the event the FERC denies the partial withdrawal, this Agreement shall be null and void and of no further effect, with all rights, duties and obligations of the Parties thereafter restored as if this Settlement Agreement had never been executed.

The Parties will cooperate and assist each other in good faith in the preparation and filing of such partial withdrawal in any and all proceedings arising out of, or related to, the request for partial withdrawal, including but not limited to acting in good faith to take all necessary actions to effectuate FERC acceptance of the withdrawal and associated dismissal of the portions of the complaints and claims, and effectuation of the releases as contemplated in this Paragraph.

4.13 All Releasing Parties expressly waives the benefits of any statutory provision or common law rule that provides, in sum or substance, that a release does not extend to claims which the party does not know or suspect to exist in its favor at the time of executing the release, which if known by it, would have materially affected its settlement with the other party. In particular, but without limitation, All Releasing Parties expressly waive the provisions of California Civil Code § 1542, which statute reads:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

All Releasing Parties acknowledges that they may hereafter discover facts other than or different from those that they know or believe to be true with respect to the claims released pursuant to the provisions of this Settlement Agreement, but All Releasing Parties hereby expressly waive and fully, finally and forever settle and release any known or unknown, suspected or unsuspected, asserted or unasserted, contingent or non-contingent claim with respect to the Released Claims, and without regard to the subsequent discovery or existence of such different or additional facts, except, with respect to the AG and Northwest AG's and the CPUC only, this California Civil Code § 1542 waiver does not apply to any criminal claims or unknown claims of willful fraud.

4.14 This Settlement Agreement may be pleaded as a full and complete defense to any claim that may be instituted, prosecuted or attempted in breach of this Settlement Agreement. The Parties further agree that their respective duties and obligations hereunder may be specifically enforced through an action seeking equitable relief or a petition for writ of mandamus by the Party or Parties for whose benefit such duty or obligation is to be performed, but no breach of any duty or obligation by any Party hereunder shall entitle any other Party to rescind or terminate this Settlement Agreement, except as provided in Paragraph 3.8 hereof. In

any such action, and in any action to enforce the provisions of the Settlement Agreement, the prevailing party shall recover its reasonable attorneys' fees and costs.

4.15 Williams agrees that it is subject to, and will comply in all material respects with, applicable rate filing requirements under the Federal Power Act and regulations thereunder, as those requirements may be interpreted, reviewed and revised by the FERC or a federal court from time to time. The AG will not file any actions based on any legal theory, including without limitation Business and Professions Code § 17200, against Williams with respect to such filing requirements or any filings made, or any failure or omission to make filings, under the Federal Power Act so long as such parties comply with the requirements of this Paragraph 4.15.

4.16 The Parties expressly understand that both direct and indirect breaches of the provisions of this Settlement Agreement are proscribed. Therefore, the Parties covenant that each will not institute or prosecute, against the other, any action or other proceeding based in whole or in part upon any claims released by this Settlement Agreement; provided, however, the Parties expressly acknowledge that the CPUC Complaint, CEOB Complaint, Refund Proceeding, and AG 206 Complaint are continuing with respect to entities other than Williams and this release is not intended to impair in any way the Parties' participation in those pending actions.

4.17 Except for the provisions of Paragraph 4.18, the California State Releasing Parties stipulate that part of the cash portion of this settlement constitutes full payment of any claim for attorneys' fees and costs, and the Parties hereby waive and release any and all claims for attorneys' fees or costs, statutory or otherwise, related in any way to disputes pre-dating this Settlement Agreement or related to the Parties' entry into this Settlement Agreement.

4.18 Williams agrees to pay the amount of \$15 million (the "Fee and Expense Fund") by wire transfer into an escrow account (the "Escrow Account") with a qualified third party financial institution (the "Escrow Agent") acceptable to Williams and Civil Plaintiffs' Counsel. These funds shall be wired to the Escrow Account no later than January 2, 2003, provided however, that if the Phase I parties extend the date for satisfaction of any conditions precedent set forth in Paragraph 3.6 beyond January 2, 2003, the date for funding the Escrow Account shall be the earlier of the date of satisfaction of the Paragraph 3.6 conditions or April 1, 2003, provided however that this date may be extended by mutual agreement of Williams and Civil Plaintiffs' Counsel. This amount will be held in escrow, and will be returned to Williams, with all interest earned, less approved costs of notice paid from the Fee and Expense Fund, should this settlement not be completed or approved by the Court.

a. If this settlement is approved, then the funds provided by Williams shall remain in escrow, with all interest added to the fund, to be disbursed upon application to the Court by a majority of Civil Plaintiffs' Counsel as follows:

(i) Upon satisfaction of the conditions of Paragraphs 3.3(f)(i) and 3.3(f)(ii), excluding any appeals, any or all of the funds may be expended for litigation expenses of the Private Parties, Water Districts, the California Cities and Counties and/or any other counsel that represents or purports to represent the Class, including but not limited to expert fees, as approved from time to time by the Court. Any counsel receiving funds from the Fee and Expense Fund agrees to be bound by the provisions of the Settlement

Agreement including without limitation Paragraph 3.3 as it applies to Civil Plaintiffs' Counsel;

(ii) Any or all of the funds may be expended for attorneys' fees of the Private Parties, Water Districts, the California Cities and Counties and/or any other counsel that represents or purports to represent the Class. Any counsel receiving funds from the Fee and Expense Fund agrees to be bound by the provisions of the Settlement Agreement including without limitation the provisions of the Paragraph 3.3 as it applies to Civil Plaintiffs' Counsel, as approved from time to time by the trial court;

(iii) Counsel for the Private Parties, the Water Districts, the California Cities and Counties and/or any other counsel that represents or purports to represent the Class, may make multiple requests, at their sole discretion, for expenses and/or attorneys' fees as the litigation progresses;

(iv) Should the litigation be completed without exhausting the funds for the purposes described above, then all remaining funds shall be paid, upon Court order, to the Class or the Private Parties, or to a charity approved by the Court; and

(v) Except as provided in Paragraphs 4.18(e), (f) and (g), in no event shall any of these funds be returned to Williams or paid to the State of California, the AG, or any agency or officer of the State of California.

b. Except as provided in this paragraph 4.18 above, if payment under this paragraph is not made by January 2, 2003, this Settlement Agreement with respect to the Plaintiffs and the Class in Wholesale Electricity Antitrust Cases I & II may, at the option of Civil Plaintiffs' Counsel be terminated. If the Settlement Agreement is not terminated, any amount due under this paragraph shall bear interest from such due date until paid at a rate equal to the greater of (i) fifteen percent (15%) per annum, or (ii) the prime rate (as published in the money rates section of The Wall Street Journal on the default date) plus six percent (Prime + 6%), compounded monthly.

c. Other than the deposit of the Fee and Expense Payment into the Escrow Account, Williams shall have no further obligation to any person or entity including, without limitation, the Private Parties, Water Districts, the California Cities and Counties, Civil Plaintiffs' Counsel, any other counsel that represents or purports to represent the Class, or any of them with respect to any claim for incentive awards, attorneys' fees, costs or disbursements incurred or claimed to have been incurred in connection with the Civil Actions.

d. Williams shall have no responsibility for, and no liability whatsoever with respect to the allocation among Civil Plaintiffs' Counsel, or any other person who may assert some claim thereto, of any part of the Fee and Expense Fund, and Williams takes no position with respect to such matters.

e. All (i) taxes (including any estimated taxes, interest or penalties) arising with respect to the income earned by the Fee and Expense Fund ("Taxes"); and (ii) expenses and costs

incurred in connection with the operation and implementation of this Paragraph (including, without limitation, expenses of tax attorneys and/or accounting and mailing distribution costs and expenses relating to filing (or failing to file) any necessary filings) (“Tax Expenses”), shall be paid out of the Fee and Expense Fund; in all events Williams and Williams Companies shall have no liability or responsibility for the Taxes, the Tax Expenses, or the filing of any tax returns or other documents with the Internal Revenue Service or any other state or local taxing authority. The Fee and Expense Fund, by and through Civil Plaintiffs’ Counsel, shall hold Williams and Williams Companies harmless for Taxes and Tax Expenses (including, without limitation, Taxes payable by reason of any such indemnification). Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the settlement and shall be timely paid by the Escrow Agent out of the Fee and Expense Fund without prior order from the Court, and the Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to Civil Plaintiffs’ Counsel any funds necessary to pay such amounts. Williams and Williams Companies are not responsible and shall have no liability therefor, or for any reporting requirements that may relate thereto. Williams and Williams Companies and the Plaintiffs in the Civil Actions hereto agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this Paragraph 4.18.

f. In the event the Phase I Execution Date or the Closing does not occur for any reason, or the Settlement Agreement is terminated pursuant to its terms, or the Class Settlement provided for in this Paragraph is not approved, or is terminated, canceled, or fails to become effective for any reason, the Fee and Expense Fund (including accrued interest), less any amounts expended to provide notice to the Class pursuant to Paragraph 3.3(b), shall be refunded to Williams and Williams Companies as provided in Paragraph 4.18(g) below.

g. The attorneys’ fees and expenses including the fees of experts and consultants as awarded by the Court (the “Fee and Expense Award”), shall be paid from the Fee and Expense Fund, as ordered, immediately after the Court executes an order awarding such fees and expenses. Civil Plaintiffs’ Counsel shall thereafter allocate the Fee and Expense Award in a manner in which they in good faith believe reflects the contributions of each such counsel to the litigation and settlement. In the event that the Settlement Agreement or Class Settlement does not occur for any reason, or the Judgment or the order making the Fee and Expense Award is reversed or modified on appeal, and in the event that the Fee and Expense Award has been paid to any extent, then Civil Plaintiffs’ Counsel shall within ten (10) business days from the event which precludes the Effective Date from occurring or such reversal or modification, refund to the Fee and Expense Fund the fees, expenses and interest previously paid to them from the Fee and Expense Fund, including accrued interest on any such amount at the average rate earned on the Fee and Expense Fund from the time of withdrawal until the date of refund. Each such Civil Plaintiffs’ Counsel’s law firm, as a condition of receiving such fees and expenses, on behalf of itself and each partner and/or shareholder of it, agrees that the law firm and its partners and/or shareholders are subject to the jurisdiction of the Court for the purpose of enforcing this Paragraph 4.18 of this Settlement Agreement. Without limitation, each such law firm and its partners and/or shareholders agree that the Court may, upon application of Williams or Williams Companies on notice to each such law firm and its partners and/or shareholders, summarily issue orders, including but not limited to, judgments and attachment orders, and may make appropriate

findings of or sanctions for contempt, against each such law firm and its partners and/or shareholders, or any of them, should such law firm fail timely to repay fees and expenses pursuant to this Paragraph 4.18 of this Settlement Agreement.

h. Except as provided in Paragraphs 4.18(f), and (g), Williams and Williams Companies shall not have any responsibility for interest in, or liability whatsoever with respect to the administration, investment or distribution of the Fee and Expense Fund, the plan of allocation, the determination or administration of Taxes, or any losses incurred in connection therewith. No Person shall have any claim of any kind against Williams or Williams Companies, or its counsel, or its primary or excess directors' and officers' liability insurer and reinsurers with respect to the matters set forth in this paragraph.

4.19 Each of the Parties acknowledges and agrees that the various releases in this Settlement Agreement were individually negotiated with the various releasing parties under such releases and that such releases should be interpreted individually in the context of this Settlement Agreement without regard to other releases herein.

5. Representations, Warranties, and Other Agreements.

5.1 Each of the Parties hereto as to itself represents and warrants to each other Party as of the date hereof, and as of the Closing Date, as follows:

a. it has the full power and authority to enter into this Settlement Agreement and to perform all transactions, duties and obligations herein set forth;

b. it has taken all necessary actions duly and validly to authorize the execution and delivery of this Settlement Agreement and the other documents and agreements provided for herein to be executed and delivered by it (including without limitation the Renegotiated Contracts and the Gas Contract) in accordance with applicable law;

c. they have duly and validly executed and delivered this Settlement Agreement and, on the Closing Date, will have duly and validly executed and delivered, the other documents and agreements provided for herein to be executed and delivered by it (including without limitation the Renegotiated Contracts and the Gas Contract);

d. this Settlement Agreement constitutes, and other documents and agreements provided for herein to be executed and delivered by it will constitute on and after Closing, its legal, valid and binding obligations, enforceable against it in accordance with this Settlement Agreement's terms and the respective terms of the other documents and agreements provided for herein to be executed and delivered by it (including without limitation the Renegotiated Contracts and the Gas Contract);

e. it has not sold, assigned, transferred, or encumbered, or otherwise disposed of, in whole or in part, voluntarily or involuntarily, any claim of any nature whatsoever released pursuant to this Settlement Agreement; and

f. except as set forth in Schedule 5.1(f) attached to this Settlement Agreement, no discharge or consent of any party is required for (i) the execution, delivery or performance of this Settlement Agreement, (ii) the consummation of the transactions contemplated hereby (including without limitation the Renegotiated Contracts and the Gas Contract), or (iii) the transfer of any of the Property to the AG or his designee(s).

5.2 In order to induce the California State Releasing Parties, California Cities and Counties, California Water Districts, the Northwest AGs, and the Private Parties to enter into this Settlement Agreement and provide the releases and other consideration set forth herein, and as further consideration therefor, Williams and Williams Companies acknowledge and agree as follows:

a. Reasonably Equivalent Value (Williams). Williams has made an independent determination of (i) the fair market value of the Property to be conveyed pursuant to the Bill of Sale, (ii) the fair market value of William's interests in the Original Contracts, (iii) the fair market value of Williams' claims released in this Settlement Agreement, and (iv) the fair market value of all other consideration provided by Williams pursuant to this Settlement Agreement to any party hereto (collectively, the "Williams Consideration"), and has determined that, in the aggregate, the fair market value of the Williams Consideration is reasonably equivalent to the aggregate of (A) the fair market value of Williams' interests in the Renegotiated Contracts and the Gas Contract, (B) the fair market value of the claims of the Parties released in this Settlement Agreement, and (C) the fair market value of all other consideration received by Williams pursuant to this Settlement Agreement from any Party hereto.

b. Reasonably Equivalent Value (Williams Companies). Williams Companies has made an independent determination of (i) the fair market value of Williams Companies' claims released in this Settlement Agreement, and (ii) the fair market value of all other consideration provided by Williams Companies pursuant to this Settlement Agreement to any party hereto (collectively, the "Williams Companies Consideration"), and has determined that, in the aggregate, the fair market value of the Williams Companies Consideration is reasonably equivalent to the aggregate of (A) the fair market value of the claims of the Parties released in this Settlement Agreement, and (B) the fair market value of all other consideration received by Williams Companies pursuant to this Settlement Agreement from any party hereto.

c. Solvency (Williams). Williams acknowledges and agrees that before and after giving effect to the transactions contemplated by this Settlement Agreement (i) Williams' financial condition is and will be such that the fair value of its property (exclusive of property transferred, concealed or removed with intent to hinder, delay or defraud any creditor) exceeds the sum of Williams' debts, (ii) Williams has not incurred and will not have incurred, and does not intend to incur, debts beyond its ability to pay as they become due, and (iii) Williams has and will have sufficient capital to conduct its business affairs.

d. Solvency (Williams Companies). Williams acknowledges and agrees that before and after giving effect to the transactions contemplated by this Settlement Agreement (i) Williams' financial condition is and will be such that that the fair value of its property (exclusive of property transferred, concealed or removed with intent to hinder, delay or defraud any creditor) exceeds the sum of Williams Companies' debts, (ii) Williams Companies has not

incurred and will not have incurred, and does not intend to incur, debts beyond its ability to pay as they become due, and (iii) Williams Companies has and will have sufficient capital to conduct its business affairs.

e. Reinstatement of Claims. If under any debtor relief proceedings all or any part of any conveyance of property or any payment of cash by Williams or Williams Companies to any Party to this Settlement Agreement is subsequently invalidated, declared to be fraudulent or preferential, or set aside, then, to the extent such Party is required to return such property or pay the value thereof or refund any payment, Williams' and Williams Companies' liabilities to such Party shall be deemed reinstated to the extent necessary to provide such Party with a distribution on its claim in such debtor relief proceeding equal to the value assigned herein to the returned property or the full amount of the avoided payment or refund and the release given by such party to Williams and Williams' Companies in this Settlement Agreement shall be to such extent of no further force or effect.

f. Prior Obligations; Taxes. No Party shall be liable for or obligated to pay any amounts or obligations with respect to the Property arising prior to the date hereof. Williams shall pay when due all fees, taxes and governmental charges (including without limitation interest and penalties) of any nature which may now or hereafter be imposed or levied by any federal, state or local authority upon any Party, the Property (including, without limitation, the purchase, ownership, transportation, delivery, installation, leasing, possession, use, operation, storage, and return of such Property) arising as a result of Williams' ownership of the Property.

5.3 All Releasing Parties represents and warrants, as to itself, that it is not aware of any other pending or existing lawsuits, claims, or formal or informal investigations by or on behalf of itself against Williams related to the Original Contracts other than as released in this Settlement Agreement.

5.4 Each of the CDWR, CEOB, and CPUC represents and warrants, as to its own agency, that it is not aware of any pending or existing lawsuits, claims, or formal or informal investigations or inquiries by or on behalf of the itself against Williams or Williams Companies, other than as set forth above, related to the pursuit of claims released in Paragraph 4.3 other than as released in this Settlement Agreement.

5.5 Each of the AG and the Northwest AGs represents and warrants that he or she is not aware of any pending or existing lawsuits, claims, or formal or informal investigations or inquiries by or on behalf of him or her against Williams or Williams Companies related in any way to the subject matter of this Settlement Agreement other than the claims he or she is releasing in Paragraph 4.4 of this Settlement Agreement.

5.6 Each Party warrants the following: (1) it is represented by competent counsel with respect to this Settlement Agreement and all matters covered by it; (2) it has been fully advised by said counsel with respect to its rights and obligations and with respect to the execution of this Settlement Agreement; and (3) it authorizes and directs its respective attorneys to have such papers executed and to take such other action as is necessary and appropriate to effectuate the terms of this Settlement Agreement.

5.7 Each Party warrants that no promise, inducement or agreement not expressed herein has been made in connection with this Settlement Agreement. To the extent that it was deemed necessary and desirable by a Party, each such Party warrants that it has received appropriate, adequate, and competent technical and economic advice. Each Party warrants that it has not relied on any other Party for advice or guidance concerning the technical or economic implications or consequences of the Renegotiated Contracts or this Settlement Agreement. This Settlement Agreement constitutes the entire agreement between the Parties and supersedes and replaces all prior negotiations or proposed agreements, written or oral, with respect to the subject matter thereof.

5.8 The representations, warranties and agreements of the Parties set forth in Paragraphs 5.1 through 5.7 of this Settlement Agreement shall survive the Closing indefinitely.

6. General Provisions.

6.1 In entering and making this Settlement Agreement, the Parties assume the risk of any mistake of fact or law. If the Parties, or any of them, should later discover that any fact they relied upon in entering this Settlement Agreement is not true, or that their understanding of the facts or law was incorrect, then the Parties shall not be entitled to seek rescission of this Settlement Agreement by reason thereof. This Settlement Agreement is intended to be final and binding upon the Parties regardless of any mistake of fact or law.

6.2 This Settlement Agreement shall be binding upon and for the benefit of any of the Parties and their successors and assigns. Nothing in this Settlement Agreement shall be construed or interpreted to impart any rights or obligations to any third party (other than a permitted successor or assignee bound to this Settlement Agreement).

6.3 Neither the provision of consideration in the form of the mutual covenants contained herein, nor the performance of any such covenants contained herein, nor anything contained or incorporated herein shall be deemed, nor shall the negotiations, execution and performance of this Settlement Agreement constitute, any admission or concession of liability or wrongdoing on the part of any Party. Any such liability or wrongdoing is expressly denied.

6.4 This Settlement Agreement may not be altered, amended, modified or otherwise changed in any respect whatsoever except by a writing duly executed by an authorized representative of each of the Parties.

6.5 The language of this Settlement Agreement shall be construed as a whole, according to its fair meaning and intent, and not strictly for or against any Party, regardless of who drafted or was principally responsible for drafting the Settlement Agreement or any specific terms or conditions hereof. This Settlement Agreement shall be deemed to have been drafted by all Parties, and no Party shall urge otherwise.

6.6 The headings in this Settlement Agreement are for convenience only. They in no way limit, alter or affect the meaning of this Settlement Agreement.

6.7 This Settlement Agreement shall be construed and enforced pursuant to the laws of the State of California, excluding any choice of laws provisions or conflict of laws principles which would require reference to the laws of any other jurisdiction.

6.8 Should any provision of this Settlement Agreement be held illegal, such illegality shall not invalidate the whole of this Settlement Agreement; instead, the Parties shall use their best efforts to reform the Settlement Agreement in order to give effect to the original intention of the Parties in all material respects.

6.9 This Settlement Agreement may be executed in multiple original and/or facsimile counterparts, each of which is equally admissible in evidence and shall be deemed to be one and the same instrument. This Settlement Agreement shall not take effect until each Party has signed a counterpart.

6.10 The failure of any Party hereto to enforce any condition or provision in this Settlement Agreement at any time shall not be construed as a waiver of that condition or provision unless such waiver is in writing and signed by the waiving Party, nor shall it forfeit any rights to future enforcement thereof.

6.11 The schedules attached to this Settlement Agreement are hereby made a part of this Settlement Agreement.

6.12 Time shall be of the essence for purposes of construing and enforcing this Agreement.

6.13 If the Closing does not occur, the Parties shall be restored to their respective positions as of the Phase I Execution Date.

6.14 The Parties (a) acknowledge that it is their intent to consummate this Settlement Agreement; and (b) agree to cooperate to the extent necessary to effectuate and implement all terms and conditions of this Settlement Agreement and to exercise their best efforts to accomplish the foregoing terms and conditions of this Settlement Agreement.

6.15 The Parties agree that the terms of the settlement reflect a good-faith settlement of all Parties hereto, reached voluntarily after consultation with experienced legal counsel. Neither this Settlement Agreement nor the settlement contained herein, nor any act performed or document executed pursuant to or in furtherance of this Settlement Agreement or the settlement: (i) is or may be deemed to be or may be used as an admission of, or evidence of, the validity of any Released Claim, or of any wrongdoing or liability of Williams or Williams Companies; (ii) is or may be deemed to be or may be used as an admission of, or evidence of, any fault or omission of Williams or Williams Companies in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal; or (iii) shall be offered in evidence or alleged in any pleading by any party hereto, Williams' or Williams Companies' counsel or Civil Plaintiffs' Counsel. Released Persons may file this Settlement Agreement and/or Judgment from this Litigation in any other action that may be brought against them in order to support a defense or counterclaim based on principles of *res judicata*, collateral estoppel, release, good-faith settlement, judgment bar or reduction or any theory of claim preclusion or issue preclusion or similar defense or counterclaim. The Parties, their respective counsel or any other Member of

the Class may file this Settlement Agreement in any proceeding brought to enforce any of its terms or provisions. The Parties and their counsel, and each of them, agree, to the extent permitted by law, that all agreements made and orders entered during the course of the Litigation relating to the confidentiality of information shall survive this Settlement Agreement.

6.16 This Settlement Agreement and the attached Schedules constitute the entire agreement among the Parties, and no representations, warranties or inducements have been made to any Party concerning this Settlement Agreement or its Exhibits other than the representations, warranties and covenants contained and memorialized in such documents. Except as otherwise provided herein, each Party shall bear its own costs.

6.17 Each Party, or any person or entity executing this Settlement Agreement or any of its Exhibits on behalf of any of the Parties, warrants that it is expressly authorized to take all appropriate action required or permitted to be taken by the Parties pursuant to this Settlement Agreement to effectuate its terms and also are expressly authorized to enter into any modifications or amendments to this Settlement Agreement on behalf of the Class which they deem appropriate.

6.18 Each counsel or other Person executing this Settlement Agreement or any of its Exhibits on behalf of any Party hereto hereby warrants that such Person has the full authority to do so.

6.19 The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of this Settlement Agreement, and all Parties hereto submit to the jurisdiction of the Court for purposes of implementing and enforcing the settlement embodied in this Settlement Agreement.

6.20 This Settlement Agreement and the Exhibits hereto shall be considered to have been negotiated, executed and delivered, and to be wholly performed, in the State of California, and the rights and obligations of the parties to this Settlement Agreement shall be construed and enforced in accordance with the laws of the State of California without giving effect to that State's choice of law principles.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]

IN WITNESS WHEREOF, the Parties have executed and delivered this Settlement Agreement and made it effective as of the date set forth at the beginning of this Settlement Agreement.

The Governor of the State of California

By: _____
Barry Goode, Secretary of Legal Affairs
Attorney for the Governor of the State of California

The California Department of Water Resources

By: _____
Name: _____
Title: _____

The California Electricity Oversight Board

By: _____
Name: _____
Title: _____

The California Public Utilities Commission

By: _____
Name: _____
Title: _____

Attorney General of the State of California

By: _____
Name: _____
Title: _____

Attorney General of the State of Oregon

By: _____
Name: _____
Title: _____

Attorney General of the State of Washington

By: _____
Name: _____
Title: _____

City and County of San Francisco

By: _____
Name: _____
Title: _____

City of Oakland

By: _____
Name: _____
Title: _____

County of Santa Clara

By: _____
Name: _____
Title: _____

County of Contra Costa

By: _____
Name: _____
Title: _____

Valley Center Municipal Water District

By: _____
Name: _____
Title: _____

Padre Dam Municipal Water District

By: _____
Name: _____
Title: _____

Ramona Municipal Water District

By: _____
Name: _____
Title: _____

Helix Water District

By: _____
Name: _____
Title: _____

Vista Irrigation District

By: _____
Name: _____
Title: _____

Yuima Municipal Water District

By: _____
Name: _____
Title: _____

Fallbrook Public Utility District

By: _____
Name: _____
Title: _____

Borrego Water District

By: _____
Name: _____
Title: _____

Metropolitan Transit Development Board

By: _____
Name: _____
Title: _____

San Diego Trolley, Inc.

By: _____
Name: _____
Title: _____

San Diego Transit Corporation

By: _____
Name: _____
Title: _____

Sweetwater Authority

By: _____
Name: _____
Title: _____

California Assemblywoman Barbara Mathews

Pamela R. Gordon, in her capacity as a
Representative of the Class

Ruth Hendricks, in her capacity as a
Representative of the Class

Mary L. Davis, in her capacity as a
Representative of the Class

**Oscar's Photo Lab, in its capacity as a
Representative of the Class**

By: _____
Name: _____
Title: _____

**Williams Energy Marketing & Trading
Company**

By: _____
Name: _____
Title: _____

The Williams Companies, Inc.

By: _____
Name: _____
Title: _____

SCHEDULE 1.25 TO SETTLEMENT AGREEMENT

Criteria for Credit Default Swaps included as Security Documents:

1. Documentation - ISDA credit default swap documents, including 1999 ISDA Credit Derivative Definitions, as amended from time to time.
2. Fixed Rate Payor - AG (or its designee) (Fixed Rate Amounts to be paid by Williams (or by Williams Companies pursuant to the Williams Companies Guarantee) for benefit of AG)
3. Floating Rate Payor - An Eligible CDS Party
4. Reference Entity - The Williams Companies
5. Reference Obligation - Senior unsecured notes [to be discussed]
6. Fixed and Floating Rate Payor Calculation Amounts - 125% of Cash Consideration secured by such Credit Default Swap.
7. Settlement - Cash Settlement
8. Conditions to Payment - Credit Event Notice only. No requirement of Notice of Publicly Available Information.
9. Credit Events - Failure to Pay (\$1 million threshold); Bankruptcy; Obligation Acceleration (\$10 million threshold)
10. Obligation Category - Payment

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